

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ottawa County Insurance Authority	County Ottawa
Fiscal Year End 12/31/06	Opinion Date 4/24/07	Date Audit Report Submitted to State 4/24/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

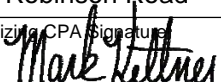
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	No comments and recommendations		
Other (Describe)	<input type="checkbox"/>	No A-133 Audit required		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517.787.6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673

COMPREHENSIVE ANNUAL FINANCIAL REPORT

of

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY



West Olive, Michigan

For The Years Ended December 31, 2006 and 2005

BOARD OF DIRECTORS

2006

Alan Vanderberg
Mary Richardson
Roger Rycenga
Gordon Schrotenboer
Jack Smant
Dennis Swartout



OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

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INTRODUCTORY SECTION



Ottawa County, Michigan Insurance Authority

12220 Fillmore Street, Room 331, West Olive, Michigan 49460

(616) 738-4856

Fax (616) 738-4897

April 24, 2007

Board of Directors
Ottawa County, Michigan Insurance Authority
12220 Fillmore Street, Room 331
West Olive, MI 49460

Board of Directors:

The Comprehensive Annual Financial Report of the Ottawa County, Michigan Insurance Authority (the "Insurance Authority" or "Authority") for the year ended December 31, 2006 is hereby respectfully submitted. This report was audited by the Insurance Authority's independent certified public accountants. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Insurance Authority. We believe the data, as presented, are accurate in all material respects, that it is presented in a manner designed to set forth fairly the financial position and results of operations of the Insurance Authority as measured by the financial activity of its various membership years, and that all disclosures necessary to enable the reader to gain the maximum understanding of the Insurance Authority's financial affairs have been included.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with it.

REPORTING ENTITY AND ITS SERVICES

The Ottawa County, Michigan Insurance Authority is an organization of governmental unit agencies formed as a legal entity under State statutes that authorize local units to create such an entity to meet their risk management needs. Specifically, the Insurance Authority administers a program of self-funding and commercial insurance in the areas of property and liability as well as providing for support services such as: claims/litigation administration and management, loss control services and training, risk management statistical information, and financial reporting services for its members. The Insurance Authority began its operation on October 24, 1990 with two initial members, the County of Ottawa and the Ottawa County Building Authority; as of December 31, 2006 no additional members have been added.

The Board of Directors is the governing body of the Insurance Authority and manages its operations. The Board is comprised of the following persons: the Ottawa County Treasurer, the Chairperson of the Ottawa County Board of Commissioners, the Chairperson of the Ottawa County Board of Commissioners standing committee in charge of finances, a member-at-large from the Ottawa County Board of Commissioners, the Ottawa County Administrator, and an elected or appointed official from each participating public entity except Ottawa County.

The Insurance Authority has the following powers pursuant to the intergovernmental agreement: to sue and be sued; to make contracts; to hold and dispose of real and personal property; to borrow money, contract debts, and pledge assets in the name of the Insurance Authority; to appoint employees or contract with other individuals or entities, including a participating public entity, for personnel services; and to do any other acts necessary or appropriate in order to effectuate the purposes of the agreement.

The Insurance Authority reporting entity includes all activities (operations of its administrative staff, officers, executive board and board of directors as they relate to the Insurance Authority) considered to be part of (controlled by or dependent on) the Insurance Authority. This includes the financial activity relating to all of the membership year pools of the Insurance Authority. The Insurance Authority does not have oversight responsibility for any other governmental entity.

ECONOMIC CONDITION AND OUTLOOK

National and State Economy

The changes in employment for the nation and the State of Michigan have taken different paths. Between November of 2005 and November 2006, the U.S. gained almost 1.8 million jobs, whereas employment in Michigan fell by more than 27,000 jobs. The national job growth was experienced in all sectors of the economy, except manufacturing, retail trade and information. In Michigan, job losses over this period were concentrated in manufacturing, retail trade and the construction industry. The services sector in Michigan grew, but it was not enough to offset the loss of more than 40,000 manufacturing jobs. Michigan's manufacturing employment losses accounted for 70 percent of the total nationwide decline in manufacturing employment over that period.

The State of Michigan is in a long-term phase of change and adaptation due to the shrinking domestic automotive industry which historically has been the main driver of the State's economy. Unlike the other states in the U.S., Michigan is challenged by an ailing economy because of its concentration of employment in automotive manufacturing and the continuing effects of globalization.

Ottawa County Economy

It is important to note that the economy in Ottawa County is far different from that of the State as a whole. Ottawa County is continuing to grow in population and employment and is experiencing significant new investments in its largest economic sector-manufacturing.

Employment

Both for 2004 and 2005, Ottawa County had identical annual average unemployment rates as the nation at 5.5% and 5.1%, respectively. The Michigan average rates were significantly higher at 7.0% and 6.8%, respectively. Although the unemployment rate for Ottawa County increased slightly in 2006, it remains far lower than the State average.

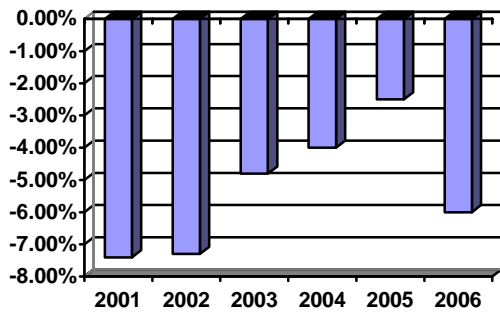
Year	Ottawa County	Michigan	National
2004	5.5%	7.0%	5.5%
2005	5.1%	6.8%	5.1%
2006	5.2%	6.9%	4.6%

At the start of 2007 (for January), Ottawa County had a civilian labor force of 137,356. Of that total, 129,291 persons were employed and 8,065 unemployed. The unemployment rate was 5.9 percent. This rate compared to a national unemployment rate of 5.0 percent and a Michigan average of 7.7 percent. It is important to note that Ottawa County had the second lowest unemployment rate among the State's 17 labor market areas at the start of this year. In addition, it should be noted that since 2002, the annual average total employment has been growing in Ottawa County. Over the four-year period (2002 to 2006), the collective increase in total employment has been 8,920 jobs.

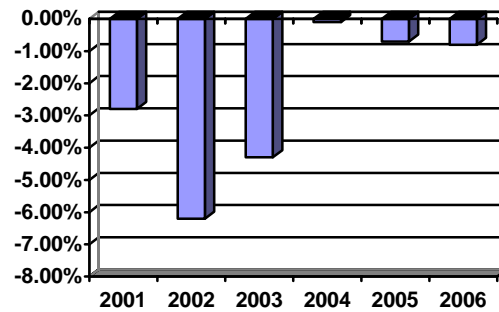
Composition of the Ottawa County Workforce

Ottawa County's workforce is heavily tied to manufacturing. In 2006, approximately 36.1% of all private sector workers in Ottawa County worked in manufacturing (37,241 workers). This compared to a State of Michigan average of 17.6%. Since 2000, manufacturing employment levels have been steadily sliding in Michigan. Michigan lost 248,637 manufacturing jobs since 2000 - a decrease of 28%. By comparison, Ottawa County also experienced a steady decrease in its manufacturing workforce, but the pace of decline has been much less. Over this same period, Ottawa County lost 6,116 manufacturing jobs for a 14.1% decline.

% Decrease in Manufacturing Jobs – Michigan

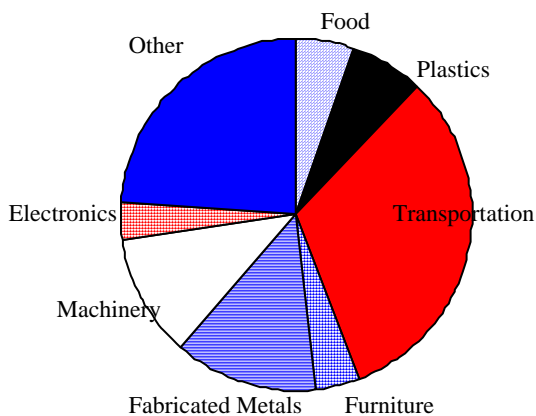


% Decrease in Manufacturing Jobs – Ottawa County

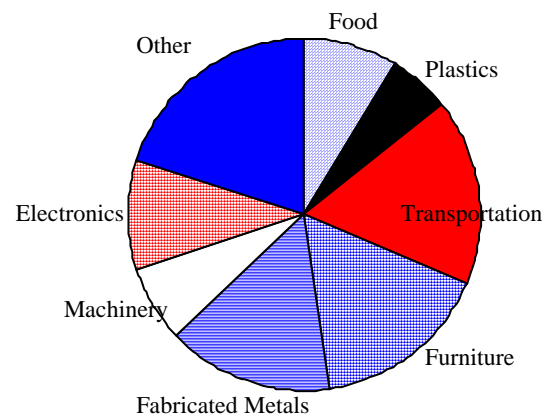


The reason Ottawa County's economy is better as a whole and the percentage of manufacturing jobs lost in Ottawa County is lower than the State is because manufacturing is more diversified in Ottawa County. There are seven large industry groups within Ottawa County's manufacturing sector. In rank order they are as follows: transportation equipment, furniture, fabricated metals, electronic products, food processing, machinery and plastics. The largest group, transportation equipment manufacturing, accounted for about 17.3% of the workforce. The next largest group, furniture manufacturing, accounted for nearly the same share at 16.5%. Collectively, workers in these seven industry groups accounted for 80% of the total private sector manufacturing employment in Ottawa County. In contrast, for the State as a whole, transportation equipment accounts for 32.4% of the manufacturing base. The graphs below reflect the better diversity of the manufacturing industry in Ottawa County.

State of Michigan Manufacturing by Industry



Ottawa County Manufacturing by Industry



Although employment within the transportation equipment industry group in Ottawa County has fallen, other segments are showing improvement. Specifically, in the furniture industry, after consistent employment reductions between 2000 and 2005, this segment slightly increased employment in 2006. The County believes this increase signals recovery in the office furniture industry with a period of expansion to follow.

Ottawa County's manufacturing diversity can also be seen from examining the employment counts of the ten largest manufacturing employers. For 2007, the top ten companies represented five different industry groups-office furniture, automotive components, plastics, food processing and boat building. Collectively, these top ten firms, in terms of total employment employed 17,552 workers in early 2007. By comparison, the top ten non-manufacturing firms in Ottawa County during this current year collectively employed 11,910 persons. These firms include higher education, education, health care, retailing and county government.

Economic Outlook for 2007-2008

State Outlook

There are a number of forecast uncertainties including energy prices, consumer and household finances, the housing market and Michigan's motor vehicle industry. According to the most recent economic forecast from the University of Michigan (released April 5, 2007), the restructuring of the domestic auto industry will continue well into the future. As in 2006, it is anticipated that about 52,100 jobs will be lost in Michigan during 2007 and about half as many again (24,000) lost in 2008. Manufacturing jobs will account for 70% of the net job losses. The only job gains will be in education and health services. Modest job growth is expected until 2009.

According to the (Michigan) House Fiscal Agency's forecast (prepared in January 2007), the national unemployment rate is forecast to be 4.6% in 2007 and 4.7% in 2008. Michigan's unemployment rate is forecast to be 7.4% in 2007 and 7.8% in 2008.

In Michigan, the personal income growth of 3.1% posted for 2006 will slow to 2.2% in 2007, reflecting a weaker economy due to further reductions in the high-wage auto sector. However, personal income is projected to increase slightly to 2.6% in 2008.

Last, a major unknown affecting the State, and by extension county and local governments, is the State's current fiscal crisis both for 2007 and into 2008. The State's weak economic performance has resulted in weak business tax, sales tax and real estate transfer tax collections. Presently, there is an estimated deficit for the current fiscal year of \$686 million and an anticipated \$1 billion dollar deficit for fiscal year 2008. Compounding the problem is the scheduled end of the Single Business Tax at the end of 2007. To date, no replacement funding has been identified. Consequently, spending cuts are expected in State programs and services, affecting local governments, universities and public schools. Although some of the deficit may be alleviated by various proposed tax increases, significant spending reductions appear unavoidable.

Ottawa County Outlook

According to a forecast by the W.E. Upjohn Institute (dated January 9, 2007), total employment in Ottawa County will increase over the 2006 level by 0.5 percent in 2007 and 1.0 percent in 2008. The main contributors to the job growth in both years will be the service providing industries. Employment in the goods providing industries and government will decrease slightly in 2007, but then rebound slightly in 2008. Consequently, assuming Ottawa County's economy continues to perform as it has in the recent past, Ottawa County's unemployment rate will be no higher than 5.7% in 2007 and 6.1% in 2008. These rates are significantly better than the State's projected unemployment rates of 7.4% in 2007 and 7.8% in 2008.

Still, Michigan's changing auto industry will continue to impact a number of the automotive components manufacturers in Ottawa County. One of the largest impacts which is now being realized is the closure of the former Delphi Corporation fuel injector manufacturing plant in the City of Coopersville. In the first quarter of 2007, this operation was permanently downsized with the machinery and equipment moved to other Delphi plants and the workforce eliminated through early buyouts/retirement, transfers and layoffs. In the second quarter of 2007, it is anticipated that this former automotive components manufacturing plant of 287,000 square feet located on a 135 acres site will become available for a new owner/tenant.

Other large automotive manufacturing operations in Ottawa County that are in the midst of potential change include Hydro Automotive Structures in the City of Holland (for sale), ASIMCO in Grand Haven Township (in bankruptcy) and Johnson Controls, Inc. in the City of Holland and Holland Township (an operational change). Specifically, a JCI automotive interiors operation in the City of Holland was purchased by Plastech Engineered Products of Dearborn. Plastech, a firm which specializes in plastic injection molding, will acquire about 700 former JCI workers. Currently, Johnson Controls is the second largest manufacturing employer in Ottawa County with over 3,000 employees, so changes at JCI/Plastech have the potential for significant impacts all across the community.

However, there is encouraging news for Ottawa County despite the challenges just discussed. The County is also experiencing growth in several areas that suggests a far different economic outlook for the County than the State of Michigan.

Growth in Population

Ottawa County also continues to experience population growth. According to the Census Bureau, with an estimated 257,671 residents in 2006, Ottawa County is the eighth largest county in Michigan, in terms of total population. Between 2000 and 2006, Ottawa County's total population grew by 8.1%, which exceeded the growth rates of the seven other larger counties. Of all the 83 counties in Michigan, Ottawa County's population growth rate in the most recent year (between 2005 and 2006) of 1% ranked Ottawa County the third fastest growing county in the State. By comparison, the State of Michigan had a 1.6 percent gain in population over the six-year period and a 0.2 percent decline over that one year.

Growth in Housing

There has been a mixed performance in terms of recent housing construction in Ottawa County. The number of single family housing unit starts in 2006 was down to 628 from 1,123 in 2005. However, as for multiple family unit starts, there was a healthy total of 561 starts in 2006. More than half of those starts occurred in Allendale Township in the vicinity of Grand Valley State University, which continues to experience increasing enrollments. The annual average number of multi-family unit starts over the preceding five years in Ottawa County was about 327 starts. So, the 2006 level was 72% more than that average.

Growth in the Manufacturing Sector

In terms of current and short-term projected expansion activity within Ottawa County's manufacturing sector, there were 80 manufacturing firms located throughout the County that applied for and received P.A. 198 industrial facilities tax abatements in 2006. This number represents the second largest number of certificates issued by a county in the State of Michigan last year. In terms of the collective value of these private sector investments in new plants, plant additions and the acquisitions of new machinery, equipment, furniture & fixtures, Ottawa County ranked the third county in Michigan with \$257.7 million. Collectively, all of these expansion projects are expected to create at least 888 new jobs over the next two years.

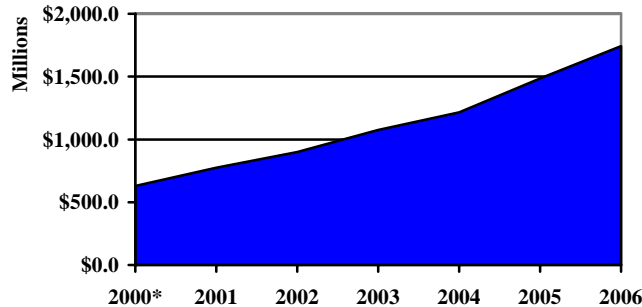
Some of the larger industrial expansion projects in terms of investments (of \$5 million or more) include the following:

Company	Project	\$ Investment	Projected Job Growth
Leprino Foods	Plant Expansion	\$97.6 million	53
Gentex	New Manufacturing & Technology Center	35.6 million	100
Sara Lee	Machinery & Equipment	12.4 million	24
NPR Manufacturing	Plant Expansion	8.1 million	10
Meridian	Machinery & Equipment	7.1 million	14
Magna Donnelly	Machinery & Equipment	6.6 million	57
Metal Flow	Plant Expansion	6.3 million	32
J.B. Laboratories	Plant Expansion	5.9 million	10

There were also five P.A. 198 industrial expansions last year in the portion of the City of Holland that lies within Allegan County. The collective value of those projects was \$13.2 million.

These 2006 investments reflect the ongoing trend of investment in Ottawa County. In fact, since 2001, over \$1.7 billion in new investments in facilities and technology have collectively been made by manufacturers located in Ottawa County to stay competitive in the global marketplace.

Total Investments in Real & Personal Property – P.A. 198 Projects



*2000 includes a \$429.2 million investment for the Southern Energy/MIRANT natural gas fired electric generating plant in the City of Zeeland

In addition, going into 2007 and beyond, there are a number of other manufacturing firms in Ottawa County with expansions currently underway or planned. Details on the significant known expansions follow

Company	Project	\$ Investment	Projected Job Growth
Gentex	Plant Expansion	\$11 million	130
Lamar Construction	New Facility	6.3 million	63
Plascore	New Facility	2.8 million	50
PowerQuest Boats	New Operation	1.7 million	34
Pac CNC	Building Addition	905,000	2
Environ Solution	Machinery & Equipment	763,875	20
Industrial Woodworking	Building Addition	478,034	2

Growth in Utilities Capacity

A major new utility project will go under construction in southeast Ottawa County and southern Kent County this year. DTE Energy is proposing to build the 13-mile long Jamestown Gas Pipeline at an estimated cost of \$70 million. This new pipeline will increase the supply of natural gas and improve the deliverability/reliability of natural gas in these growing parts of Ottawa and Kent counties.

Growth in the Commercial Sector

There are also several large commercial development projects currently under construction or scheduled to begin in the near future. Those new projects include a 178,590 square foot Wal-Mart Super Store in Grand Haven Township, a \$1.75 million West Shore Mall renovation in Holland Township, a 225,000 square foot Menards store in the City of Holland, a \$15 million Meijer shopping center in Jamestown Township and the Grand Landings in the City of Grand Haven. Grand Landings is located on the south shore of the Grand River and along U.S. 31. This project will include residential condominiums, stores, cafes, restaurants, and a hotel/convention center. When built-out, this village development project will be valued at approximately \$70 million.

Growth in the Agricultural Sector

Another proposed project promising significant future benefits to the agricultural industry in southwest Ottawa County and northwest Allegan County is the construction of a \$2.5 million regional anaerobic digester. This facility would alleviate an animal waste disposal problem by converting the liquid wastes into methane gas that can then be utilized as an energy source. Federal funding assistance has been applied for this area-wide project.

Ottawa County's agricultural base could also be strengthened with advances resulting from a research and development effort currently underway at Zeeland Farm Services (ZFS). ZFS was awarded \$1 million grant from the State of Michigan under the 21st Century Jobs Fund Program to research better ways that soybean oil products could replace conventional petroleum-based products. The research is being conducted in cooperation with Michigan State University.

It is important to note that several economic sectors in Ottawa County have significant projects planned or underway, enhancing the diversity of the County's economy. Moreover, these projects are taking place not just in one geographic area of the County, but are interspersed throughout the County. In addition to the larger investments highlighted, many modest investments continue to develop in the County. Both the multitude and magnitude of investment in the County are indicative of the confidence that the private sector has in Ottawa County. With its strengths in entrepreneurship, pro-business attitudes, local governmental cooperation, innovation, and strong work ethic, Ottawa County will be stable in the years ahead.

MAJOR INITIATIVES

The Insurance Authority assumes financial and operational responsibilities for all risk assumption, risk management, and insurance coverage matters for the County of Ottawa, including its constituent departments and agencies, and the Ottawa County Building Authority. By contract with the Insurance Authority, the County, through its Administrative Services Department, has the primary responsibility for the day-to-day risk and insurance management functions of the Insurance Authority, so as to preserve human, physical, natural, and financial resources.

The Insurance Authority contracts with a risk management consultant to assist with identification, evaluation, and reduction of exposures to risk, as well as all other risk management and insurance functions. Legal counsel, both independent and County civil counsel, provide the claim defense when the Insurance Authority is responsible for defense, and supervise the defense provided by insurers when an insurer has the right and duty to defend a claim. Counsel also reviews Insurance Authority policies and procedures so as to provide appropriate protection to the Insurance Authority and its participants, and provides periodic training sessions to County employees in order to reduce exposure to risk.

It is a standard requirement of all vendors and contractors doing business with Ottawa County or the Building Authority to provide evidence of insurance in accordance with specified requirements, as well as broad indemnification. In this way, liability arising out of the acts, errors, or omissions of others is not a primary financial responsibility of the Insurance Authority.

A softer insurance market resulted in some improved pricing for the major excess commercial policies which the Authority purchases. It is expected that this trend will continue and commercial coverage will cost even less at the next renewal. As excess insurance costs drop, there is less incentive for the Authority to assume additional dollars of risk. The Authority will continue to monitor the cost of excess insurance versus the level of risk which it assumes to maintain a good balance between those levels and the expense of commercial coverage. Unfortunately, the 2006 commercial liability renewal again did not cover Employment Practices Liability in the top \$5,000,000 layer. This means that, while the Authority purchases \$11,000,000 over the \$1,000,000 which the Authority covers, the Employment Practices Liability exposure is covered with a \$6,000,000 excess layer only. The balance is funded by the Authority, at a rate determined by the Authority's actuary.

Although no new exposures were added to the scope of coverage which the Authority provides, the Authority was able to arrange for appropriate excess insurance over the Medical Professional Liability coverage provided by the Authority, including coverage for employed professionals, including physicians, psychologists, nurses, and others. At this time, the major exposures are covered.

During the course of the year, the Authority participated in the negotiations which resulted in the resolution of a significant environmental impairment liability claim. Payments of expenses to fulfill the negotiated resolution began late in the 2005 coverage year and the final payment should be made in the next fiscal year.

Commercial insurance remains in place for Property (including Boiler and Machinery), Automobile Liability and "No-Fault," General/Law Enforcement/Public Officials Liability, and Crime. Each line of insurance which is purchased commercially has a deductible or self-insured retention, which the Authority covers.

Further, the Authority assumes responsibility for those risks which are either uninsurable or which are insurable at comparatively high premiums, such as gradual pollution, and for risks which are excluded by the insurance policies which it purchases, such as damage to pavements and roadways or mysterious disappearance.

Insurance coverage is purchased for those risks where the premiums are projected to be significantly lower over time than the cost of expected losses, where losses are too infrequent for any accurate projection, or where the Authority desires to control the claim defense process.

All claims brought against the County or the Building Authority, and all incidents occurring within their jurisdictions, whether against a commission, board, elected/appointed official, employee, or volunteer, are appointed to the Insurance Authority in accordance with its reporting procedure. The claim/incident is processed and, if appropriate, forwarded to the Insurance Authority's legal counsel or insurer for investigation or establishment of an open claim reserve. At each Insurance Authority Work Group meeting, reports of claims or incidents are reviewed, as are reserves for open claims and the long-term claim history. Settlement of any claim and preferred handling of any lawsuit or potential lawsuit occurs after consultation with the Insurance Authority's Work Group and/or the appropriate insurance company.

The Insurance Authority continually reviews and considers alternatives to some or all of its risk financing and control program. As the commercial insurance market softens, there is less economic impetus to continue to assume more risk. However, there are many issues which the Authority considers when deciding whether to offer additional coverage to its members. In some cases, there are factors which far outweigh cost in making these decisions. The Authority Work Group continues its comprehensive review of exposures and will present appropriate recommendations to the Authority for its consideration.

Safety and loss prevention programs are performed in conjunction with the County of Ottawa Administrator's Office, the risk management consultant, legal counsel, and the insurers. Each County department is expected to conduct its operations in a responsible and safe manner.

OTHER INFORMATION

Independent Audit

Rehmann Robson, independent certified public accountants, provide an objective, independent audit of the fairness of the Insurance Authority's reported financial position and results of operations. Their audit includes the auditing procedures which they deem necessary to express an opinion as to the fairness of the financial statements. Their unqualified opinion on the Insurance Authority's financial statements is included in the financial section of the report.

In addition, Financial Risk Analysts, LLC, provide independent actuarial services which estimates the liabilities recorded as outstanding claim reserves.

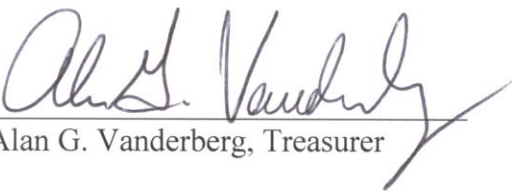
Acknowledgments

Our sincere appreciation is expressed to members of the County of Ottawa staff for their assistance in preparing this report.

Our appreciation is also extended to each member and alternate of the Board of Directors for their commitment to risk management and intergovernmental risk pooling.

Respectfully submitted,

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY



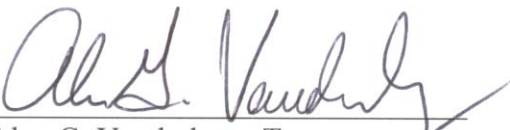
Alan G. Vanderberg, Treasurer

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Responsibility for the integrity of the financial data presented rests with the Ottawa County, Michigan Insurance Authority (the "Authority"). We believe the data to be accurate in all material aspects. These financial statements are prepared in accordance with generally accepted accounting principles applicable to government and Michigan State Statutes.

The Authority maintains a system of internal controls to provide reasonable assurance that the books and records reflect authorized transactions of the Authority.

Rehmann Robson, independent certified public accountants, has audited the accompanying financial statements, and the supplemental financial information has been subjected to the auditing procedures applied in their audit. Rehmann Robson's report appears prior to the financial statements.



Alan G. Vanderberg, Treasurer

FINANCIAL SECTION



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

April 24, 2007

Ottawa County, Michigan
Insurance Authority
West Olive, Michigan

We have audited the accompanying basic financial statements of the **OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY**, a component unit of Ottawa County, as of December 31, 2006 and 2005, and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Ottawa County, Michigan Insurance Authority** as of December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2007 on our consideration of ***Ottawa County, Michigan Insurance Authority*** internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such schedules have been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, are fairly presented in all material respects in relation to the financial statements taken as a whole.

We did not audit the data in the introductory section of this report and, therefore, express no opinion thereon.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

As management of the *Ottawa County, Michigan Insurance Authority*, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended December 31, 2006. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-xii of this report.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$6,926,635 (*net assets*). All of this amount is unrestricted and may be used to meet the Authority's ongoing obligations.
- The government's total net assets increased by \$1,892,354.
- The Authority's investment balance increased by \$1,687,762.

Overview of the Financial Statements

Fund type: The Authority has been established as an internal service proprietary fund type of the primary government, Ottawa County, to account for and allocate costs internally among the County's various functions. Specifically, the Authority accounts for the general, automobile and property liability of the County. There are three statements included in the Authority's basic financial statements.

The *statements of net assets* present information on all of the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Authority's financial position is improving or deteriorating.

The *statements of revenues, expenses and changes in net assets* present information showing how the Authority's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The *statements of cash flows* present information showing the inflows and outflows of cash during the year. Accordingly, only transactions that affect the Authority's cash account are reported. The statement of cash flows assists the reader in determining the liquidity of the entity.

These statements can be found on pages 8-10 of this report.

Notes to the financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found beginning on page 11 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information*. This is limited to schedules of claims development, unpaid claims liabilities, investments, changes in net assets, and a member growth analysis. These schedules can be found beginning on page 20 of this report.

FINANCIAL MANAGEMENT AND CONTROL

The 2006 Comprehensive Annual Financial Report reflects two years of Authority operations.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, issued in November 1989, provides accounting and financial reporting guidance for risk financing and insurance related activities for state and local governmental entities, including public entity risk pools. In February 1996, GASB No. 30, *Risk Financing Omnibus*, was issued which amended certain provisions of GASB No. 10. In March 1997, GASB No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, was issued, which also amended certain provisions of GASB No. 10.

These financial statements have been prepared in accordance with GASB No. 10, as amended by GASB No. 30 and GASB No. 31. In addition, the statements have been prepared in accordance with GASB No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* and GASB No. 40 - *Deposit and Investment Risk Disclosures*.

Fund Accounting

The Authority uses a fund (i.e., a separate accounting entity with a self-balancing set of accounts) to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Basis of Accounting

The Authority's operating fund, an internal services fund, is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of the fund are included on the statement of net assets. Internal service fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Budgetary Control

A detailed budget is presented to the Authority for approval on an annual basis.

Financial Analysis

As the following table demonstrates, the Authority's assets exceeded its liabilities by \$6,926,635 at December 31, 2006, which was a significant increase. The entire balance of the net assets is unrestricted and may be used to meet the Authority's ongoing obligations.

	<u>2006</u>	<u>2005</u>	<u>(Decrease)</u>	<u>% Change</u>
Current assets				
Investments	\$ 13,232,341	\$ 11,479,646	\$ 1,752,695	15.3%
Restricted investments	5,010,263	5,075,196	(64,933)	-1.3%
Cash and cash equivalents	208,565	880,574	(672,009)	-76.3%
Other assets	<u>236,543</u>	<u>261,087</u>	<u>(24,544)</u>	-9.4%
Total assets	<u>18,687,712</u>	<u>17,696,503</u>	<u>991,209</u>	5.6%
Current liabilities				
Unpaid claims liabilities	7,457,906	9,215,433	(1,757,527)	-19.1%
Pending investment trades	626,477	-	626,477	-
Due to Ottawa County	<u>3,676,694</u>	<u>3,446,789</u>	<u>229,905</u>	6.7%
Total liabilities	<u>11,761,077</u>	<u>12,662,222</u>	<u>(901,145)</u>	-7.1%
Net assets - unrestricted	<u><u>\$ 6,926,635</u></u>	<u><u>\$ 5,034,281</u></u>	<u><u>\$ 1,892,354</u></u>	37.6%

Together, cash and investments grew by \$389,000 (net of pending trades). Cash and investment balances at year end are at a point in time, so fluctuations are not unusual and may reflect various transactions in process. The unpaid claims liability decreased due to payments made in connection with the SouthWest Ottawa Landfill for which a reserve had been established in prior years.

Net assets increased significantly due to favorable revenue and expense activity. Specifically, incurred claims remained relatively low in contrast to premium collections. Detailed information on revenues and expenses follows.

Revenues, Expenses and Changes in Net Assets

	<u>2006</u>	<u>% of Total</u>	<u>2005</u>	<u>% of Total</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Revenue						
Loss premiums	\$ 1,913,422	66.8%	\$ 1,615,037	75.2%	\$ 298,385	18.5%
Investment revenue	399,130	13.9%	511,194	23.8%	(112,064)	-21.9%
Change in fair value of investments	542,430	18.9%	(40,050)	-1.9%	582,480	-1454.4%
Insurance recoveries and other revenue	<u>9,866</u>	<u>0.3%</u>	<u>62,381</u>	<u>2.9%</u>	<u>(52,515)</u>	-84.2%
Total revenue	<u><u>\$ 2,864,848</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 2,148,562</u></u>	<u><u>100.0%</u></u>	<u><u>\$ 716,286</u></u>	

Revenues: Revenues totaled \$2,864,848 for the year ended December 31, 2006. Overall, revenues improved significantly, increasing \$716,286 or 33.3 percent over the prior year. The majority of this increase relates to the investment pool. Specifically, the Authority's equity portfolio increased significantly in value over the prior year. In addition, during the year, the Authority changed its investment policy to allow for a greater allocation of its assets to be invested in equities. This change in the investment policy is also responsible for the corresponding decrease in investment revenue since returns in the equity market primarily take the form of changes in fair value.

Loss premiums represent charges made to Authority members for insurance coverage. These revenues cover both the payments made to the insurance carrier for excess insurance as well as the actuarially determined cost for the self-insured retentions. Previously, the cost for self-insured retentions did not reflect the Authority's liability above the excess coverage. The actuary study used for the 2006 charges did reflect this and increased accordingly. In addition, insurance recoveries can vary by year. In 2005, the Authority received \$45,000 from our carrier for mold remediation at the County's Hudsonville facility.

	<u>2006</u>	<u>% of Total</u>	<u>2005</u>	<u>% of Total</u>	<u>Increase (Decrease)</u>	<u>% Change</u>
Expenses						
Claims and legal expenses paid	\$ 229,789	23.6%	\$ 332,669	98.7%	\$ (102,880)	-30.9%
Decrease in unpaid claims liability	11,181	1.1%	(1,239,127)	-367.8%	1,250,308	-100.9%
Excess insurance	451,022	46.4%	476,370	141.4%	(25,348)	-5.3%
Risk management, administrative and other expenses	241,875	24.9%	189,073	56.1%	52,802	27.9%
Investment management fees	38,627	4.0%	31,667	9.4%	6,960	22.0%
Transfer to Ottawa County	-	0.0%	546,244	162.1%	(546,244)	-100.0%
Total expenses	\$ 972,494	100.0%	\$ 336,896	100.0%	\$ 635,598	

Expenses: Expenses totaled \$972,494 for the year ended December 31, 2006. This was a significant increase over the prior year. The prior year included a decrease in the unpaid claims liability of \$1.2 million. This 2005 decrease reflected the County of Ottawa's (primary government) assumption of certain remediation costs for the SouthWest Ottawa Landfill.

Claims and legal expenses paid can vary significantly by year depending on settlements. 2005 includes a \$98,000 payment to the County for mold remediation at the Hudsonville facility. The majority of the 2006 claims relate to auto physical damage to patrol vehicles. Last, no transfer was made to the County during 2006 based on the County's budgetary needs.

Member Assessment and Base Allocation

The allocation of assessments among members is based upon an exposure base determined by operating expenditures and unit measurements for property/liability.

Pension Funds

The Authority has no employees; as such, it contracts for all administrative, accounting, and financial reporting services with Ottawa County and other outside entities.

Cash Management

The Authority's investment policy, approved by its Board of Directors, has the objective of pursuing an optimum rate of return without sacrificing safety on available assets not required for current operating needs while maintaining sufficient liquidity to meet cash flow needs. Specific investments are made in accordance with the Authority's investment policy, which conforms to the guidelines established for investment of public funds by the Michigan Revised Statutes.

As of December 31, 2006, the Authority's investment portfolio was comprised of the following:

<u>Instrument</u>	<u>Total Principal</u>	<u>Percent of Portfolio</u>
Debt Securities:		
U.S. Government	\$ 7,110,391	38.7%
Mortgage-backed	944,043	5.1%
Corporate	1,133,586	6.1%
Discount Notes	634,122	3.4%
Equity Securities:		
Common Stock	4,963,783	26.9%
Mutual Funds	3,456,679	18.7%
Cash	<u>208,565</u>	<u>1.1%</u>
TOTAL	<u>\$ 18,451,169</u>	<u>100.0%</u>

Requests for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Fiscal Services Director, 12220 Fillmore Street, Room 331, West Olive, Michigan, 49460.

BASIC FINANCIAL STATEMENTS

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

STATEMENTS OF NET ASSETS

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Current assets		
Investments	\$ 13,232,341	\$ 11,479,646
Restricted investments	5,010,263	5,075,196
Cash and cash equivalents	208,565	880,574
Accrued interest receivable	126,771	145,200
Prepaid insurance	<u>109,772</u>	<u>115,887</u>
Total assets	<u>18,687,712</u>	<u>17,696,503</u>
Current liabilities		
Unpaid claims liabilities	7,457,906	9,215,433
Pending investment trades	626,477	-
Due to Ottawa County	<u>3,676,694</u>	<u>3,446,789</u>
Total liabilities	<u>11,761,077</u>	<u>12,662,222</u>
Net assets - unrestricted	<u><u>\$ 6,926,635</u></u>	<u><u>\$ 5,034,281</u></u>

The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Operating revenues		
Loss premium revenues	\$ 1,913,422	\$ 1,615,037
Insurance recoveries and other revenues	<u>9,866</u>	<u>62,381</u>
Total operating revenues	<u>1,923,288</u>	<u>1,677,418</u>
Operating expenses		
Claims and related expenses		
Claims and legal expenses paid	229,789	332,669
Increase (decrease) in unpaid claims liabilities	11,181	(1,239,127)
Excess insurance expense	451,022	476,370
Risk management and other expenses:		
Risk management, administrative services and other expenses	241,875	189,073
Investment management fees	<u>38,627</u>	<u>31,667</u>
Total operating expenses	<u>972,494</u>	<u>(209,348)</u>
Operating income	<u>950,794</u>	<u>1,886,766</u>
Nonoperating revenues		
Investment revenue	399,130	511,194
Change in fair value of investments	<u>542,430</u>	<u>(40,050)</u>
Total nonoperating revenues	<u>941,560</u>	<u>471,144</u>
Income before transfers	1,892,354	2,357,910
Transfer to Ottawa County	<u>-</u>	<u>(546,244)</u>
Change in net assets	1,892,354	1,811,666
Net assets, beginning of year	<u>5,034,281</u>	<u>3,222,615</u>
Net assets, end of year	<u><u>\$ 6,926,635</u></u>	<u><u>\$ 5,034,281</u></u>

The accompanying notes are an integral part of these financial statements.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities		
Loss premiums collected	\$ 1,913,422	\$ 1,615,037
Insurance recoveries and other revenues collected	9,866	62,381
Custodial funds received (paid)	225,942	(1,149,520)
Claims and related expenses paid	(2,443,404)	(823,529)
Risk management and other expenses paid	(276,539)	(233,162)
	<u>(570,713)</u>	<u>(528,793)</u>
Net cash used in operating activities		
Cash flows from noncapital financing activities		
Transfer to Ottawa County	-	(546,244)
Cash flows from investing activities		
Purchase of investments	(22,864,075)	(11,083,560)
Proceeds from sale and redemption of investments	22,345,220	11,082,620
Investment income received	417,559	502,750
	<u>(101,296)</u>	<u>501,810</u>
Net cash provided by (used in) investing activities		
Net decrease in cash and cash equivalents	(672,009)	(573,227)
Cash and cash equivalents, beginning of year	880,574	1,453,801
Cash and cash equivalents, end of year	<u><u>\$ 208,565</u></u>	<u><u>\$ 880,574</u></u>
Reconciliation of operating income to net cash (used in) operating activities		
Operating income	\$ 950,794	\$ 1,886,766
Adjustments to reconcile operating income to net cash provided by operating activities:		
Increase (decrease) in prepaid insurance	6,115	(7,597)
Decrease in unpaid claims liabilities	(1,757,527)	(1,246,020)
Increase (decrease) in due to Ottawa County	229,905	(1,161,942)
	<u><u>\$ (570,713)</u></u>	<u><u>\$ (528,793)</u></u>
Net cash used in operating activities		

The accompanying notes are an integral part of these financial statements.

NOTES to FINANCIAL STATEMENTS

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Ottawa County, Michigan Insurance Authority (the “Authority”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

In November 1989, the GASB issued Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*. GASB No. 10 establishes accounting and financial reporting standards for risk financing and insurance related activities for state and local governmental entities, including public entity risk pools. These financial statements have been prepared in accordance with GASB No. 10, as amended by GASB 30.

The more significant of the Authority’s accounting policies are described below.

Reporting Entity

The Authority was organized for the purpose of providing insurance coverage and risk management and related services to participating public entities pursuant to State of Michigan Act No. 36 of the Public Acts of 1988.

The Authority was formed by Ottawa County and the Ottawa County Building Authority, the original participating public entities. Additional public entities may be admitted by unanimous vote of all current participating public entities. Presently, no additional public entities have applied or been admitted for participation.

The Authority is governed by a board consisting of one appointed and four elected officials of Ottawa County and one elected or appointed official from each other participating public entity.

The Authority is a blended component unit of Ottawa County. Accordingly, the Authority’s financial statements are included in the County’s Comprehensive Annual Financial Report. The Authority is considered to be a component unit of the County because the County has the ability to significantly influence operations and has accountability for fiscal matters.

In 1992, the Authority issued its first indemnity contracts to participating public entities and, accordingly, began collecting premiums, processing and adjusting claims, and paying losses. Prior to 1992, the Authority’s activity was limited to investment of the original capital contributions from Ottawa County and recording related investment income and fees.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

Notes To Financial Statements

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's operating fund, an *internal service fund* (a type of proprietary fund), is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the related cash flows.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are member insurance premiums. Operating expenses include the cost of claims, risk management and administration. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by the Authority to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of money market mutual funds and other short-term investments with an original maturity of three months or less and are carried at cost, which approximates fair value.

Investments and Restricted Investments

The Authority's investments and restricted investments are stated at fair value which is determined as follows: (a) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates and (b) investments that do not have established market values are reported at estimated fair value.

Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between the Authority and Ottawa County for goods provided and services rendered. These receivables/payables are classified as "due from/to Ottawa County" on the statements of net assets.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

Notes To Financial Statements

Unpaid Claims Liabilities

The Authority records unpaid claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses, that have been reported but not settled, and of claims that have been incurred but not reported. Because actual claims costs depend on such complex factors as inflation, damage awards and changes in legal liability doctrines, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are (or will be) recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency and other economic and societal factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Reclassifications

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. DEPOSITS AND INVESTMENTS

The Authority's investments, including its cash and cash equivalents, are held in a trust account at a local bank. Public Act 218 of 1956 (the Insurance Code of 1956) establishes asset requirements for domestic insurers. Qualified assets as defined thereunder include investments in domestic and foreign stocks, bonds, and other indebtedness of solvent corporations as approved by the insurer's governing body entrusted with its investments, subject to certain percentage of portfolio limitations. Generally, the statute does not prohibit investments in any asset otherwise permitted to be held by any other person or corporation under Michigan laws. All of the Authority's investments comply with the State statutes.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

Notes To Financial Statements

Custodial Credit Risk. The Authority's savings account cash in the amount of \$1,170 and \$1,155 at December 31, 2006 and 2005, respectively, was FDIC insured. Its short-term investments in money market funds amounting to \$207,395 and \$879,419 at December 31, 2006 and 2005, respectively, are not subject to custodial risk categorization. At December 31, 2006 and 2005, the Authority did not have any custodial credit risk on its investments.

The cost and estimated fair values of investments in debt and equity securities at December 31, 2006 and 2005, are summarized as follows:

	<u>Cost</u>	<u>Unrealized</u> <u>Gains</u>	<u>Losses</u>	<u>Fair Value</u>
<u>2006</u>				
Debt securities:				
U.S. Government	\$ 2,116,811	\$ 589	\$ 17,272	\$ 2,100,128
Mortgage-backed	949,137	215	5,309	944,043
Discount notes	633,361	761	-	634,122
Corporate	1,158,130	3,065	27,609	1,133,586
Equity securities -				
Common stocks	4,138,202	894,969	69,388	4,963,783
Mutual funds:				
Domestic equity	1,719,739	-	20,803	1,698,936
International equity	1,608,729	149,014	-	1,757,743
	12,324,109	1,048,613	140,381	13,232,341
Pending trades	(626,477)	-	-	(626,477)
	<u><u>\$ 11,697,632</u></u>	<u><u>\$ 1,048,613</u></u>	<u><u>\$ 140,381</u></u>	<u><u>\$ 12,605,864</u></u>
<u>2005</u>				
Debt securities:				
U.S. Government	\$ 2,708,845	\$ 1,886	\$ 88,250	\$ 2,622,481
Mortgage-backed	2,032,640	29,333	12,283	2,049,690
Corporate	918,140	6,375	20,153	904,362
Equity securities -				
Common stocks	4,856,589	1,076,401	29,877	5,903,113
	<u><u>\$ 10,516,214</u></u>	<u><u>\$ 1,113,995</u></u>	<u><u>\$ 150,563</u></u>	<u><u>\$ 11,479,646</u></u>

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

Notes To Financial Statements

Net realized gains (losses) on the sale of investments were as follows for the year ended December 31:

	<u>2006</u>	<u>2005</u>
Debt securities	\$ 77,634	\$ (4,459)
Equity securities	507,678	255,843
Mutual funds	74,739	-

The calculation of realized gains and losses is independent of the calculation of net change in the fair value of investments. Unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in the net change reported in the current and prior years.

Interest Rate Risk. The Authority had the following investments and maturities in debt securities (none of which are callable) as of December 31:

		<u>Investment Maturities (fair value by years)</u>				
	<u>Cost</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>Over 10</u>
2006						
U.S. treasuries	\$ 2,116,811	\$ 2,100,128	\$ 620,169	\$ 553,074	\$ 926,885	\$ -
U.S. agencies:						
Mortgage-backed	949,137	944,043	125,039	194,876	-	624,128
Discount notes	633,361	634,122	634,122	-	-	-
Corporate bonds	1,158,130	1,133,586	151,120	426,937	555,529	-
	<u>\$ 4,857,439</u>	<u>\$ 4,811,879</u>	<u>\$ 1,530,450</u>	<u>\$ 1,174,887</u>	<u>\$ 1,482,414</u>	<u>\$ 624,128</u>
2005						
U.S. treasuries	\$ 2,708,845	\$ 2,622,481	\$ 149,056	\$ 1,437,180	\$ 1,036,245	\$ 1,036,245
U.S. agencies	2,081,913	2,100,189	587,871	546,628	965,690	965,690
Corporate bonds	868,867	853,863	-	607,255	246,608	246,608
	<u>\$ 5,659,625</u>	<u>\$ 5,576,533</u>	<u>\$ 736,927</u>	<u>\$ 2,591,063</u>	<u>\$ 2,248,543</u>	<u>\$ 2,248,543</u>

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY

A Component Unit of Ottawa County

Notes To Financial Statements

Credit Risk. As of December 31, 2006, the Authority's investments in the mortgage-backed bonds of U.S. agencies were rated AAA by Standard & Poor's (S&P); the discount notes of U.S. agencies were rated A-1 by S&P. The Authority's investments in corporate bonds were rated by S&P as follows:

AAA	\$ 175,717
AA	212,021
A	676,484
BBB	<u>69,364</u>
	<u><u>\$ 1,133,586</u></u>

3. RESTRICTED INVESTMENTS

In 1998, to comply with Michigan Insurance Bureau regulations, the Authority transferred certain investments – i.e., U.S. Treasury Notes – to the Michigan Department of Treasury as security for the benefit of the Authority's policyholders. As these investments mature, they are replaced with comparable investments to maintain a face value balance of \$5.0 million. Such investments held by the State Treasurer as of December 31, 2006 and 2005, are as summarized below.

<u>Description</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Face Value</u>	<u>Fair Value</u>	
				<u>2006</u>	<u>2005</u>
U.S. Treasury Notes	02/15/2007	6.250%	\$ 485,000	\$ 485,756	\$ 494,588
U.S. Treasury Notes	05/15/2007	4.375%	1,400,000	1,396,444	1,399,454
U.S. Treasury Notes	08/15/2007	6.125%	1,675,000	1,685,804	1,720,543
U.S. Treasury Notes	11/15/2008	4.750%	1,100,000	1,098,845	1,111,220
U.S. Treasury Notes	02/15/2012	4.875%	<u>340,000</u>	<u>343,414</u>	<u>349,391</u>
			<u><u>\$5,000,000</u></u>	<u><u>\$5,010,263</u></u>	<u><u>\$ 5,075,196</u></u>

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

Notes To Financial Statements

4. UNPAID CLAIMS LIABILITIES

As discussed in Note 1, the Authority establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represents changes in those aggregate liabilities for the Authority during 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Unpaid claims and claim adjustment expenses at the beginning of the year	<u>\$ 9,215,433</u>	<u>\$ 10,461,453</u>
Incurred claims and claim adjustment expenses (undiscounted):		
Provision for insured events of the current year	1,899,010	1,833,338
Increase (decrease) in provision for insured events of prior years	<u>(1,667,149)</u>	<u>(2,810,718)</u>
Total incurred claims and claim adjustment expenses	<u>231,861</u>	<u>(977,380)</u>
Payments:		
Claims and claim adjustment expenses attributable to insured events of the current year	106,687	156,961
Claims and claim adjustment expenses attributable to insured events of prior years	<u>1,882,701</u>	<u>111,679</u>
Total payments	<u>1,989,388</u>	<u>268,640</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u>\$ 7,457,906</u>	<u>\$ 9,215,433</u>

In 1996, upon advice of legal counsel and its actuary, the Authority established a liability for certain uninsured exposures (i.e., exposures excluded from commercially purchased policies and, generally, not subject to readily available policies in the market), including environmental impairment and remediation, employment relations, and defense of non-monetary claims. At December 31, 2006 and 2005, the amount of this liability, which is included in the totals above, was \$3,663,353 and \$5,010,283, respectively.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

Notes To Financial Statements

5. EXCESS INSURANCE

The following presents the Authority's per occurrence self-insured retentions:

<u>COVERAGE</u>	<u>Self-Insured Retention Per Occurrence</u>
<u>General Liability, Public Officials E&O and Police Professional Liability</u>	
4/1/01 - 3/31/09	\$ 1,000,000
4/1/94 - 3/31/01	500,000
4/1/93 - 3/31/94	250,000
<u>General Liability</u>	
4/1/89 - 3/31/93	\$ 250,000
<u>Automobile Liability</u>	
4/1/02 - 3/31/09	\$ 25,000
<u>Automobile Physical Damage</u>	
10/1/86 - 3/31/09	Unlimited
<u>Property</u>	
4/1/02 - 3/31/09	\$ 50,000
4/1/01 - 3/31/02	25,000
4/1/93 - 3/31/01	5,000
<u>Medical Professional Liability</u>	
4/1/03 - 3/31/09	\$ 1,000,000
4/1/93 - 3/31/03	500
4/1/91 - 3/31/93	250,000

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County

Notes To Financial Statements

6. PREMIUM DEFICIENCY

The Authority has determined that a premium deficiency did not exist at December 31, 2006 and 2005. The Authority considered anticipated investment income in making this determination.

7. CUSTODIAL FUNDS MANAGEMENT

Pursuant to an interpretation of State statutes by the Michigan Insurance Bureau (MIB), the Authority discontinued coverage of workers compensation claims effective January 1, 1996. The MIB allowed, however, that the Authority could continue to manage the monies of the County's self-insured workers compensation fund in a custodial capacity provided that it: (1) did not cover or process claims; and (2) maintained sufficient deposits and/or investments of such a character and level to otherwise comply with State investment statutes for local governments. The Authority complied with these stipulations for 2006 and 2005.

* * * * *

SUPPLEMENTAL SCHEDULES

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL CLAIMS DEVELOPMENT INFORMATION

	1986 to						
	1991 (A)	1992	1993	1994 (C)	1995	1996 (D)	
Loss premium and investment revenues	\$ -	\$ 1,229,319	\$ 1,441,923	\$ 1,530,430	\$ 1,831,066	\$ 1,272,013	
Estimated incurred claims and allocated loss adjustment expenses, end of policy year	1,070,247	455,251	349,515	794,982	799,613	2,643,981	
Paid (cumulative) as of:							
End of policy year	252,746	23,521	21,375	98,563	41,243	61,374	
1 year later	507,387	68,883	59,536	138,363	71,981	71,898	
2 years later	656,630	73,381	71,570	137,679	97,801	117,670	
3 years later	700,369	89,334	77,205	139,078	105,031	384,542	
4 years later	722,260	94,217	83,526	140,038	150,782	385,509	
5 years later	744,069	93,512	84,926	141,781	158,222	386,013	
6 years later	764,453	93,512	84,926	143,526	158,222	415,256	
7 years later	764,027	93,512	84,926	161,129	158,222	429,900	
8 years later	764,027	93,512	84,926	161,129	158,222	434,514	
9 years later	764,027	93,512	84,926	161,129	158,222	441,407	
10 years later	764,027	93,512	84,926	161,129	158,222	1,767,749	
11 years later	764,027	93,512	84,926	161,129	158,222		
12 years later	764,027	93,512	84,926	161,129			
13 years later	764,027	93,512	84,926				
14 years later	764,027	93,512					
15 years later	764,027						
Reestimated incurred claims and allocated loss adjustment expense:							
End of policy year	(B)	455,251	349,515	794,982	799,613	2,643,981	
1 year later	1,070,247	388,570	570,120	636,861	578,395	2,979,058	
2 years later	1,325,209	423,155	441,538	419,920	824,159	3,219,787	
3 years later	1,049,161	323,678	270,749	346,321	391,195	2,711,301	
4 years later	1,106,021	238,143	228,001	308,928	209,335	3,825,063	
5 years later	1,009,591	207,629	84,926	157,588	158,222	3,739,534	
6 years later	896,448	93,512	84,926	183,084	158,222	4,690,352	
7 years later	764,027	93,512	84,926	162,955	158,222	6,372,578	
8 years later	764,027	93,512	84,926	161,129	158,222	6,422,465	
9 years later	764,027	93,512	84,926	161,129	158,222	4,541,852	
10 years later	764,027	93,512	84,926	161,129	158,222	4,527,735	
11 years later	764,027	93,512	84,926	161,129	158,222		
12 years later	764,027	93,512	84,926	161,129			
13 years later	764,027	93,512	84,926				
14 years later	764,027	93,512					
15 years later	764,027						
Increase (decrease) in estimated incurred claims and allocated loss adjustment expense from end of policy year	-	-	-	-	-	(14,117)	

(A) Claims and loss adjustment expenses and payments for the six-year period prior to 1992, which was the first year that the Authority issued insurance contracts, are included for actuarial purposes in the calculation of total unpaid claims and loss adjustment expenses.

(B) Amount is not readily determinable.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
\$	1,326,315	\$ 1,414,804	\$ 1,527,955	\$ 1,437,975	\$ 1,552,616	\$ 1,657,986	\$ 1,885,825	\$ 2,090,638	\$ 2,126,231	\$ 2,312,552
	741,416	862,448	1,071,908	1,996,252	1,652,919	1,514,478	1,225,971	1,655,863	1,833,338	1,899,010
	57,888	77,872	58,601	172,327	101,158	182,395	93,623	95,865	156,961	106,687
	79,905	91,517	66,842	196,873	164,777	249,749	154,455	180,123	222,798	
	87,692	103,579	70,968	224,385	184,120	235,167	150,034	192,769		
	90,371	117,208	64,777	285,881	166,367	246,397	169,905			
	90,875	117,620	66,800	180,017	173,403	262,037				
	90,745	117,620	57,360	186,700	173,403					
	90,745	117,620	57,360	629,066						
	90,745	117,620	57,360							
	90,745	117,620								
	90,745									
	741,416	862,448	1,071,908	1,996,252	1,652,919	1,514,478	1,225,971	1,655,863	1,833,338	1,899,010
	583,280	799,686	418,396	1,942,279	1,051,239	1,019,798	928,333	1,066,205	1,203,650	
	327,674	315,906	194,754	1,971,751	798,503	523,070	581,124	839,080		
	90,626	117,344	64,924	2,145,689	166,527	501,818	436,895			
	91,824	117,620	66,800	1,982,949	173,403	370,113				
	90,745	117,620	57,360	2,004,087	173,403					
	90,745	117,620	57,360	1,483,802						
	90,745	117,620	57,360							
	90,745	117,620								
	90,745									
	-	-	-	(520,285)	-	(131,705)	(144,229)	(227,125)	(629,688)	-

(C) Beginning in 1994, the Authority increased the confidence level from 53% to 99% for purposes of actuarial valuation of estimated losses.

(D) Beginning in 1996, includes provision for certain uninsured exposures: environmental impairment, employment relations and defense of non-monetary claims and excludes workers compensation coverage.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULE OF UNPAID CLAIMS LIABILITIES
Years Ended December 31, 2006 and 2005

	<u>General Liability (A)</u>		<u>Auto Physical Damage</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Unpaid claims and claim adjustment expenses, beginning of year	\$ 3,388,721	\$ 2,830,281	\$ 240,639	\$ 143,619
Estimated incurred claims and claim adjustment expenses (undiscounted)				
Provisions for current year insured events	1,361,734	1,065,234	144,239	342,071
Increase (decrease) in provision for prior year insured events	(1,200,253)	(441,805)	(183,883)	(105,406)
Total estimated incurred claims and claim adjustment expenses	161,481	623,429	(39,644)	236,665
Payments				
Claims and claim adjustment expenses attributable to current year insured events	42,279	15,431	48,800	139,483
Claims and claim adjustment expenses attributable to prior year insured events	530,844	49,558	25,466	162
Total payments	573,123	64,989	74,266	139,645
Total unpaid claims and claim adjustment expenses, end of year	<u><u>\$ 2,977,079</u></u>	<u><u>\$ 3,388,721</u></u>	<u><u>\$ 126,729</u></u>	<u><u>\$ 240,639</u></u>

(A) Includes police and public officials liability coverage.

(B) Includes environmental impairment liability, employment relations liability and defense of non-monetary claims.

Property & Crime		Medical Professional Liability		Uninsured Exposures (B)		Totals	
2006	2005	2006	2005	2006	2005	2006	2005
<u>\$ 4,074</u>	<u>\$ 46,948</u>	<u>\$571,716</u>	<u>\$571,716</u>	<u>\$ 5,010,283</u>	<u>\$ 6,868,889</u>	<u>\$ 9,215,433</u>	<u>\$ 10,461,453</u>
44,237	6,121	348,800	419,912	-	-	1,899,010	1,833,338
<u>(4,024)</u>	<u>8,118</u>	<u>(258,400)</u>	<u>(419,912)</u>	<u>(20,589)</u>	<u>(1,851,713)</u>	<u>(1,667,149)</u>	<u>(2,810,718)</u>
<u>40,213</u>	<u>14,239</u>	<u>90,400</u>	<u>-</u>	<u>(20,589)</u>	<u>(1,851,713)</u>	<u>231,861</u>	<u>(977,380)</u>
15,608	2,047	-	-	-	-	106,687	156,961
<u>50</u>	<u>55,066</u>	<u>-</u>	<u>-</u>	<u>1,326,341</u>	<u>6,893</u>	<u>1,882,701</u>	<u>111,679</u>
<u>15,658</u>	<u>57,113</u>	<u>-</u>	<u>-</u>	<u>1,326,341</u>	<u>6,893</u>	<u>1,989,388</u>	<u>268,640</u>
<u>\$ 28,629</u>	<u>\$ 4,074</u>	<u>\$662,116</u>	<u>\$571,716</u>	<u>\$ 3,663,353</u>	<u>\$ 5,010,283</u>	<u>\$ 7,457,906</u>	<u>\$ 9,215,433</u>

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULE OF INVESTMENTS - BONDS AND NOTES
December 31, 2006 and 2005

			2006			2005			
	Credit rating	Maturity	Interest rate	Face value	Cost	Fair value	Face value	Cost	Fair value
U.S. Government Securities									
U.S. Treasury Notes		03/31/06	1.500%	\$ -	\$ -	\$ -	\$ 150,000	\$ 147,170	\$ 149,056
U.S. Treasury Notes		09/30/07	4.000%	625,000	619,580	620,169	-	-	-
U.S. Treasury Notes		08/15/08	3.250%	25,000	24,550	24,383	55,000	54,890	53,476
U.S. Treasury Notes		11/15/08	4.750%	-	-	-	1,050,000	1,108,816	1,060,091
U.S. Treasury Notes		02/15/10	6.500%	-	-	-	300,000	330,563	323,613
U.S. Treasury Notes		07/31/11	4.875%	525,000	531,376	528,691	-	-	-
U.S. Treasury Notes		02/15/12	4.875%	95,000	101,063	95,868	710,000	755,312	728,943
U.S. Treasury Notes		05/15/14	4.750%	410,000	416,537	411,058	300,000	312,094	307,302
U.S. Treasury Notes		08/15/16	4.875%	415,000	423,705	419,959	-	-	-
				2,095,000	2,116,811	2,100,128	2,565,000	2,708,845	2,622,481
Mortgage-Backed Securities									
Federal Home Loan Bank	AAA	03/06/06	5.125%	-	-	-	340,000	345,168	340,214
Federal Home Loan Mortgage	AAA	01/15/12	5.750%	-	-	-	100,000	99,719	104,906
Federal Home Loan Mortgage	AAA	07/12/10	4.125%	200,000	198,264	194,876	200,000	198,264	195,000
Federal National Mortgage Assn	AAA	04/15/07	5.250%	125,000	125,798	125,039	125,000	125,798	125,743
Federal National Mortgage Assn	AAA	06/15/06	2.500%	-	-	-	250,000	246,638	247,657
Federal National Mortgage Assn	AAA	06/15/09	6.375%	-	-	-	215,000	202,758	225,885
Federal National Mortgage Assn	AAA	09/15/12	4.375%	-	-	-	450,000	440,530	439,736
Federal National Mortgage Assn	AAA	10/15/14	4.625%	-	-	-	375,000	373,765	370,549
Federal National Mortgage Assn	AAA	01/18/21	5.000%	200,000	197,281	196,594	-	-	-
Federal National Mortgage Assn	AAA	01/12/36	6.000%	125,000	126,089	126,269	-	-	-
Federal National Mortgage Assn	AAA	01/12/36	5.500%	150,000	148,764	148,289	-	-	-
Federal National Mortgage Assn	AAA	01/12/36	6.500%	150,000	152,941	152,976	-	-	-
				950,000	949,137	944,043	2,055,000	2,032,640	2,049,690
Discount Notes									
Federal Home Loan Bank	A-1+	01/11/07		435,000	433,997	434,522	-	-	-
Federal National Mortgage Assn	A-1+	01/17/07		200,000	199,364	199,600	-	-	-
				635,000	633,361	634,122	-	-	-

Continued...

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULE OF INVESTMENTS - BONDS AND NOTES
December 31, 2006 and 2005

				2006			2005		
	Credit rating	Maturity	Interest rate	Face value	Cost	Fair value	Face value	Cost	Fair value
Corporate Securities									
Bell Atlantic Financial Services	A	03/15/07	7.600%	\$ 50,000	\$ 55,729	\$ 50,206	\$ 50,000	\$ 55,729	\$ 51,412
General Electric Capital Corp.	AAA	06/15/07	5.000%	-	-	-	50,000	52,566	50,095
Boeing Capital Corporation	A+	11/15/07	6.350%	50,000	53,207	50,300	50,000	53,207	51,301
Bear Stearns Companies, Inc.	A	12/15/07	6.750%	50,000	55,528	50,614	50,000	55,528	51,665
J P Morgan Chase	A+	05/01/08	3.625%	-	-	-	50,000	49,092	48,632
Household Finance Corp.	AA-	06/17/08	6.400%	50,000	53,807	50,766	50,000	53,807	51,582
Associates Corporation	A+	11/15/08	6.875%	50,000	54,998	51,355	50,000	54,998	52,636
John Deere Corporation	A	01/13/09	3.750%	50,000	48,804	48,521	50,000	48,804	48,418
International Lease Finance	AA-	04/01/09	3.500%	50,000	47,394	48,096	50,000	47,394	47,593
American General Finance	A+	10/01/09	3.875%	25,000	24,227	24,059	-	-	-
Wachovia Corporation	A+	06/01/10	4.375%	-	-	-	50,000	48,870	48,911
Target Corporation	A+	08/15/10	7.500%	-	-	-	50,000	57,464	55,301
Wal-Mart Stores	AA	08/15/10	4.750%	50,000	49,671	49,378	50,000	49,671	49,709
ING USA Global Funding	AA	10/01/10	4.500%	25,000	24,672	24,377	-	-	-
Chase Auto Owner	AAA	05/15/11	5.130%	100,000	100,297	99,999	-	-	-
FPL Group Capital	A-	09/01/11	5.625%	15,000	15,396	15,164	-	-	-
Capital One Financial	BBB+	09/15/11	5.700%	15,000	15,313	15,222	-	-	-
Alcoa Incorporated	A-	01/15/12	6.000%	50,000	52,096	51,307	50,000	52,096	52,359
IBM Corporation	A+	11/29/12	4.750%	-	-	-	50,000	49,102	49,597
General Electric Capital Corp.	AAA	01/15/13	5.450%	75,000	76,256	75,718	-	-	-
Bank One Corporation	A	01/30/13	5.250%	70,000	70,298	69,418	-	-	-
Residential Capital	BBB	04/17/13	6.500%	10,000	10,238	10,134	-	-	-
Lehman Brothers Holdings	A+	05/17/13	5.750%	15,000	15,405	15,237	-	-	-
Verizon Global Funding Corp.	A	06/01/13	4.375%	-	-	-	50,000	45,508	47,354
Pacificorp 1st Mortgage	A-	09/15/13	5.450%	15,000	15,181	14,992	-	-	-
Goldman Sachs Group	AA-	01/15/14	5.150%	40,000	39,535	39,404	-	-	-
Morgan Stanley	A	04/01/14	4.750%	50,000	45,774	47,807	50,000	45,774	47,953
SLM Corporation	A	05/15/14	5.375%	50,000	49,273	49,603	50,000	49,273	50,499
Wachovia Corporation	A	08/01/14	5.250%	50,000	49,991	49,391	-	-	-
Key Bank	A-	07/01/14	5.800%	15,000	15,422	15,219	-	-	-
Wellpoint Incorporated	BBB+	12/15/14	5.000%	15,000	14,761	14,522	-	-	-
Pitney Bowes Incorporated	A+	03/15/15	5.000%	50,000	49,257	48,172	50,000	49,257	49,345
Sprint Nextel Corporation	BBB+	12/01/16	6.000%	15,000	14,939	14,619	-	-	-
iStar Financial	BBB	03/15/16	5.875%	15,000	15,204	14,867	-	-	-
ConocoPhilips	A-	10/15/16	5.625%	25,000	25,457	25,119	-	-	-
				1,140,000	1,158,130	1,133,586	900,000	918,140	904,362
				\$ 4,820,000	\$ 4,857,439	\$ 4,811,879	\$ 5,520,000	\$ 5,659,625	\$ 5,576,533

Concluded

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULES OF INVESTMENTS - COMMON STOCKS
December 31, 2006 and 2005

	2006			2005		
	Shares	Cost	Fair value	Shares	Cost	Fair value
Aes Corporation	4,180	\$ 51,127	\$ 92,127	8,320	\$ 93,374	\$ 131,706
Allstate Corporation	1,360	66,196	88,550	1,420	64,120	76,779
Amdocs Limited	-	-	-	2,740	75,366	75,350
American Express	1,770	82,771	107,386	2,140	95,670	110,124
American International Group Inc.	2,452	142,267	175,710	2,032	105,084	138,643
American Tower Corporation	2,040	73,708	76,051	-	-	-
Amgen Incorporated	1,260	78,269	86,071	2,190	124,398	172,703
Apple Incorporated	1,160	80,442	98,414	-	-	-
Bank of America Corporation	2,335	95,006	124,666	3,445	133,260	158,987
Bunge Limited	1,330	78,427	96,438	2,290	139,481	129,637
Cardinal Health Incorporated	1,540	108,943	99,222	-	-	-
Cisco Systems	5,695	97,922	155,644	4,785	53,202	81,919
Citigroup Incorporated	2,575	105,845	143,427	3,575	142,691	173,495
Citrix Systems Incorporated	1,990	56,772	53,830	-	-	-
Colgate-Palmolive Company	1,480	75,502	96,555	1,640	78,433	89,954
ConocoPhillips	1,110	69,938	79,865	-	-	-
Constellation Brands	2,910	68,537	84,448	4,790	110,455	125,642
Dell Computer Corporation	-	-	-	2,440	69,101	73,078
Dean Foods	1,926	60,423	81,431	2,826	84,167	106,427
Devon Energy Corporation	-	-	-	1,420	44,311	88,807
Dicks Sporting Goods	1,280	45,128	62,707	2,690	82,892	89,416
Ecolab Incorporated	1,310	40,141	59,212	2,880	88,388	104,458
EOG Resources Incorporated	1,500	93,562	93,675	-	-	-
Equitable Resources	2,050	61,103	85,587	1,740	42,614	63,841
Exxon Mobil Corporation	-	-	-	2,990	131,359	167,948
Fisher Scientific International	-	-	-	2,100	130,037	129,906
Fortune Brands Incorporated	1,020	80,430	87,098	1,260	102,391	98,305
Freeport-McMoran	-	-	-	1,560	49,697	83,928
General Electric Company	4,055	127,502	150,887	4,685	141,320	164,209
Genzyme Corporation	1,640	105,939	100,991	-	-	-
Getty Images Incorporated	-	-	-	1,170	83,833	104,446
GlaxoSmithKline PLC	2,000	107,237	105,520	2,700	117,307	136,296
Goldman Sachs Group Incorporated	500	48,673	99,675	1,090	96,832	139,204
Illinois Tool Works	2,000	86,854	92,380	1,390	119,916	122,306
J.P. Morgan Chase & Company	2,460	90,360	118,818	3,660	129,149	145,265

Continued...

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULES OF INVESTMENTS - COMMON STOCKS
December 31, 2006 and 2005

	2006			2005		
	Shares	Cost	Fair value	Shares	Cost	Fair value
Johnson and Johnson	1,350	\$ 73,014	\$ 89,127	1,900	\$ 78,444	\$ 114,190
L-3 Communications	-	-	-	1,515	97,797	112,640
Lowes Company Incorporated	-	-	-	1,700	75,273	113,322
Merrill Lynch & Company	1,085	52,993	101,014	1,745	75,519	118,189
MGM Mirage	1,011	44,265	57,981	-	-	-
Microchip Technology Incorporated	3,760	125,558	122,952	-	-	-
Microsoft Corporation	4,850	113,427	144,821	9,490	204,066	248,164
Minnesota Mining & Manufacturing	1,285	92,355	100,140	1,525	106,259	118,188
Motorola Incorporated	4,210	90,199	86,558	7,260	157,026	164,003
Newmont Mining Corporation	1,940	94,415	87,591	-	-	-
NII Holdings	1,460	47,368	94,082	2,540	53,743	110,947
Nordstrom Incorporated	1,520	56,785	74,997	-	-	-
Norfolk Southern Corporation	1,520	74,527	76,441	-	-	-
Novartis	1,880	109,359	107,987	-	-	-
Peabody Energy Corporation	2,460	119,166	99,409	-	-	-
Pepsico Incorporated	1,645	81,710	102,895	2,145	99,266	126,727
Sprint Nextel	-	-	-	2,603	50,336	60,806
Starbucks Corporation	3,410	92,028	120,782	3,800	77,159	114,038
Starwood Hotels	1,875	91,460	117,188	1,805	94,382	115,267
Texas Instruments Incorporated	-	-	-	4,000	94,946	128,280
Transocean Incorporated	1,130	65,551	91,406	1,400	74,873	97,566
United Health Group	-	-	-	1,390	76,919	86,375
United Technologies Corporation	1,910	95,265	119,413	2,710	127,297	151,516
Valero Energy Corporation	-	-	-	1,770	99,130	91,332
Washington Mutual	1,345	54,430	61,184	2,295	91,617	99,832
Weatherford International	2,850	89,616	119,101	2,980	69,959	107,876
Wells Fargo & Company	2,670	82,443	94,945	1,700	101,407	106,811
Yahoo! Incorporated	3,813	113,244	97,384	3,053	99,673	119,617
Zimmer Holdings	-	-	-	1,700	122,650	114,648
		<u>\$4,138,202</u>	<u>\$4,963,783</u>		<u>\$4,856,589</u>	<u>\$5,903,113</u>

Concluded

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL COMPARATIVE SCHEDULE OF REVENUES,
EXPENSES AND CHANGES IN NET ASSETS / RETAINED EARNINGS
Years Ended December 31, 2006 through 1996

	2006	2005	2004	2003
Operating revenues				
Loss premium revenues	\$ 1,913,422	\$ 1,615,037	\$ 1,506,570	\$ 1,423,527
Insurance recoveries and other revenues	9,866	62,381	5,050	20,823
Total operating revenues	1,923,288	1,677,418	1,511,620	1,444,350
Operating expenses				
Claims and legal expenses paid	229,789	332,669	165,293	220,748
Increase (decrease) in unpaid claims liability	11,181	(1,239,127)	102,784	2,107,400
Excess insurance expense	451,022	476,370	498,597	528,176
Risk management, administrative services and other expenses	241,875	189,073	186,734	169,929
Investment management fees	38,627	31,667	34,279	26,477
Total operating expenses	972,494	(209,348)	987,687	3,052,730
Operating income (loss)	950,794	1,886,766	523,933	(1,608,380)
Nonoperating revenues (expenses)				
Investment revenue	399,130	511,194	584,068	462,298
Change in fair value of investments	542,430	(40,050)	78,808	793,585
Total nonoperating revenues (expenses)	941,560	471,144	662,876	1,255,883
Income (loss) before transfers	1,892,354	2,357,910	1,186,809	(352,497)
Transfer to Ottawa County	-	(546,244)	(518,082)	(603,500)
Change in net assets	1,892,354	1,811,666	668,727	(955,997)
Net assets / retained earnings, beginning of year	5,034,281	3,222,615	2,553,888	3,509,885
Restatements [see notes below]	-	-	-	-
Net assets / retained earnings, end of year	\$ 6,926,635	\$ 5,034,281	\$ 3,222,615	\$ 2,553,888

Notes: The beginning retained earnings for 1996 was restated to exclude workers compensation coverage as directed by the State. Also, beginning in 1996 and for later years, the current activity excludes workers compensation coverage.

The beginning retained earnings for 1997 was restated for the adoption of GASB No. 31, which required unrealized gains and losses to be recognized in the operating statement. Beginning in 1997, the "change in fair value of investments" included realized and unrealized gains and losses. Prior to 1996, this caption included only realized gains and losses.

The beginning retained earnings for 2000 was restated for the adoption of GASB No. 33 and 34, which eliminated the reporting of contributed capital as a component of net assets (or equity) and required the reporting of such contribution transactions in the operating statement.

2002	2001	2000	1999	1998	1997	1996	
\$ 1,193,767	\$ 1,009,968	\$ 931,933	\$ 986,759	\$ 905,478	\$ 933,769	\$ 889,501	[1]
30,590	7,485	21,191	-	-	-	-	
1,224,357	1,017,453	953,124	986,759	905,478	933,769	889,501	
186,485	194,977	229,013	383,617	166,097	110,477	92,455	
1,522,515	901,570	1,513,238	(482,545)	(69,754)	1,159,775	2,030,220	
492,132	331,263	282,211	262,576	253,709	278,665	293,717	
174,852	152,321	149,694	142,326	181,646	108,643	186,135	
27,456	31,538	60,560	33,720	51,123	50,737	41,943	
2,403,440	1,611,669	2,234,716	339,694	582,821	1,708,297	2,644,470	
(1,179,083)	(594,216)	(1,281,592)	647,065	322,657	(774,528)	(1,754,969)	
464,219	542,648	506,042	541,196	509,326	392,546	382,512	
(1,207,063)	(560,286)	164,841	441,855	1,019,545	906,905	395,951	
(742,844)	(17,638)	670,883	983,051	1,528,871	1,299,451	778,463	
(1,921,927)	(611,854)	(610,709)	1,630,116	1,851,528	524,923	(976,506)	
(226,281)	(367,174)	(480,893)	-	-	-	-	
(2,148,208)	(979,028)	(1,091,602)	1,630,116	1,851,528	524,923	(976,506)	
5,658,093	6,637,121	4,687,462	3,057,346	1,205,818	185,589	1,744,156	
-	-	3,041,261	-	-	495,306	(582,061)	
\$ 3,509,885	\$ 5,658,093	\$ 6,637,121	\$ 4,687,462	\$ 3,057,346	\$ 1,205,818	\$ 185,589	

[1] Prior to 2000, immaterial insurance recoveries and other revenues were netted against claims and legal expenses paid.

OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY
A Component Unit of Ottawa County
SUPPLEMENTAL SCHEDULE OF MEMBER GROWTH ANALYSIS
Years Ended December 31, 2006 through 1996

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total number of members	2	2	2	2	2
Total employees	952	960	950	927	910
Total annual payrolls	\$ 42,937,334	\$ 41,787,184	\$ 39,332,524	\$ 39,249,518	\$ 38,517,965
Total member premiums	\$ 1,913,422	\$ 1,615,037	\$ 1,506,570	\$ 1,423,527	\$ 1,193,767
Total number of claims	90	124	96	91	106
Total reported losses	\$ 240,970	\$ (906,458)	\$ 268,077	\$ 2,328,148	\$ 1,790,002

(A) Beginning in 1996, includes provision for environmental impairment, employment relations and defense of non-monetary claims and excludes coverage for workers compensation.

<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
2	2	2	2	2	2
895	873	798	767	740	744
\$ 35,615,824	\$ 33,710,764	\$ 31,346,149	\$ 30,777,799	\$ 28,826,214	\$ 24,153,606
\$ 1,009,968	\$ 931,933	\$ 986,759	\$ 905,478	\$ 933,769	\$ 889,501
91	69	81	78	64	63
\$ 1,063,640	\$ 1,718,699	\$ (88,146)	\$ 85,071	\$ 1,252,812	\$ 2,118,997 (A)



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

April 24, 2007

Ottawa County, Michigan
Insurance Authority
West Olive, Michigan

We have audited the financial statements of the **OTTAWA COUNTY, MICHIGAN INSURANCE AUTHORITY**, a component unit of Ottawa County, as of and for the year ended December 31, 2006, and have issued our report thereon dated April 24, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Authority Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.